STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

**SELECTHEALTH, INC.**

of

Salt Lake City, Utah

as of

December 31, 2006

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October 31, 2007

Honorable D. Kent Michie
Insurance Commissioner
State of Utah
3110 State Office Building
Salt Lake City, UT 84114

Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2006, has been made of the financial condition and business affairs of:

SELECTHEALTH, INC.
Salt Lake City, Utah

hereinafter referred to in this report as the Organization, and the following report of examination is respectfully submitted.

## SCOPE OF EXAMINATION

### Period Covered by Examination

The current examination covers the period from January 1, 2003, through December 31, 2006, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

Certificates of representation attesting to the Organization's ownership of all assets and to the nonexistence of unrecorded liabilities were signed by and received from the Organization's management at the conclusion of the examination.

### Examination Procedure Employed

The examination included a general review and analysis of the Organization's operations, the manner in which its business was conducted, and a determination of its financial condition as of December 31, 2006. The examination was conducted under the association plan of the National Association of Insurance Commissioners (NAIC) in accordance with the Financial Condition Examiners Handbook. It also incorporated top-down, risk-focused examination techniques.

The initial phase of the examination focused on evaluating the Organization's governance and control environment, as well as business approach, in order to develop an examination plan tailored to the Organization's individual operating profile. A functional activity approach was determined to be appropriate. The following functional areas were selected for examination: Premium, Benefits and Investments.

The examination determined the inherent risks associated with each of the functional areas and assessed the residual risk for each of the areas after considering the mitigating factors. Mitigating factors considered were corporate governance and control environment in addition to work performed by external and internal audit functions. Interviews were held with the senior management of the Organization to gain an understanding of the entity's operating profile and control environment. Based on the assessment of residual risk examination procedures were reduced where considered appropriate.

Status of Prior Examination Findings

The previous examination was performed by the Utah Insurance Department (the Department) as of December 31, 2002. Items of significance noted in the prior examination report summary were as follows:

- The Organization was not in compliance with Utah Code Annotated (U.C.A.) § 31A-20-108 as to the limit of risk it was allowed to retain.
- The Unpaid Claims liability was decreased $11.6 million based on the nine month paid loss development.
- In 1999 the Internal Revenue Service revoked the tax exempt status of the Organization retroactive to January 1, 1987. The Organization reapplied for tax-exempt status with the status still pending as of the prior examination period.
- The Organization had suspended its conflict of interest filing policy during the prior examination period, but reinstated the policy in 2003.
- Meeting minutes related to the Quality Assurance Committee were not maintained as required by Article V of the Amended Bylaws.
- A complete organizational chart showing all of the Organization's affiliations was not filed in the Annual Statement or in the Form B filings with the Department.

Items of significance noted in the report generated by the previous examination were appropriately addressed during the current examination unless otherwise noted in the "Summary" section of this report.

## HISTORY

General

In 1975, the Church of Jesus Christ of Latter-day Saints transferred all assets and liabilities of its hospital system to a Board of Trustees. The Board of Trustees in turn created Intermountain Health Care, Inc. (IHC), a nonprofit corporation, to own and operate the hospital system. In 1982, IHC Hospitals, Inc., subsequently named IHC Health Services, Inc., was established as a subsidiary of IHC for the purpose of operating the hospital holdings.

IHC incorporated the Organization, under the provisions of the Utah Nonprofit Corporation and Cooperative Association Act, on December 27, 1983, for the purpose of developing and administering financial mechanisms for its network of health care services. The Organization began operations as a nonprofit preferred provider organization. On December 6, 1985, the Organization was licensed as an HMO. The Organization formed and became the sole controlling member of IHC Care, Inc. (Care), a non-profit HMO in 1985 and IHC Group, Inc. (Group), a non-profit HMO in 1991, which were later merged into the Organization in 2000. In 1992, the Organization formed a wholly owned for-profit life insurance company, IHC Benefit Assurance Company (IBAC), Inc. In 2006 the Organization changed its name to SelectHealth, Inc. and IBAC changed its name to SelectHealth Benefit Assurance Company, Inc.

The Organization was issued a Third Party Administrator (TPA) license to administer life and accident and health insurance on September 1, 1984. The Organization currently administers uninsured accident and health plans.

U.C.A. §31A-8-106 does not allow the Organization to engage, directly or indirectly, in any business other than that of an HMO and business reasonably incidental to that business. The TPA business, as conducted by the Organization, is considered by the Department to be reasonably incidental to the Organization's HMO business, and the Organization is therefore considered to be in compliance with this section of the insurance code.

Copies of Amended and Restated Articles of Incorporation and Amended Bylaws were filed with the Department and were noted to have been approved as applicable.

In 1999, the Internal Revenue Service (IRS) revoked the Organization's tax-exempt status under Internal Revenue Code (IRC) § 501(c)(3) retroactive to January 1, 1987. At that time, the Organization began pursuing tax exempt status under Section 501(c)(4) of the IRC. On November 1, 2005, the Organization received a determination letter from the IRS stating that it is exempt from Federal income tax under Section 501(c)(4) of the IRC for taxable years beginning with 1987. Prior to 2005, the Organization estimated a provision for federal income taxes.

<u>Membership</u>

The sole member of the Organization is IHC, a Utah nonprofit corporation, which has the authority to exercise all property, voting and other rights, interests, and powers of membership conferred by the Utah Insurance Code and the Utah Non-Profit Corporation and Cooperative Association Act to the extent applicable.

The following schedule presents capital contributions made by IHC to the Organization since its inception:

| Year | | Amount |
|---|---|---|
| 1984-1985 | $ | 2,750,000 |
| 1986 | | 3,950,000 |
| 1987 | | 1,550,000 |
| 1988 | | 2,150,000 |
| 1989 | | 2,000,000 |
| 1990 | | 100,000 |
| 1992 | | 17,625,275 |
| Total Contributions | $ | 30,125,275 |

The above amounts were originally identified as capital contributions or as a write-in item. In March 1992, IHC issued a "Certificate of Contribution to IHC Health Plans, Inc." for the total of all contributions through that date ($30,125,275).

Dividends to Member and Others

Article XI of the Amended and Restated Articles of Incorporation states that no part of the net earnings of the Organization shall inure to the benefit of or be distributable to its member, trustees, officers or other private individuals, except that the Organization may pay reasonable compensation for services rendered and make payments and distributions in furtherance of the purposes set forth in Article III. It was noted that there were no dividends declared or paid to the Member during the examination period.

The Organization did, however, declare a $46 million surplus distribution payable to its policyholders during 2005, with the subsequent payment occurring in 2006. A Federal Tax Refund was also declared and paid in 2005 for approximately $14.8 million. Prior to payment the Organization corresponded with the Department and received approvals to issue the surplus distribution and tax refund.

Management

The Organization's Amended Bylaws state that the number of trustees shall not be less than four or more than thirty persons, as determined from time to time by the Member.

The following persons served as trustees of the Organization as of December 31, 2006:

| Name | Principal Occupation |
|---|---|
| Sydney C. Paulson | President/CEO - SelectHeatlh |
| Teresa Beck | Retired |
| James A. Dunnigan | Producer-Dunnigan Insurance |
| Daniel E. England | CEO-C. R. England |
| Gladys L. Gonzalez | President-Hispanic Marketing and Consulting |
| Nancy M. Heuston | President/Founder-The Waterford School |
| Kevin J. Jensen | VP-Professional Management Group |
| Edward G. Kleyn | President-Wells Fargo Northern UT & Southwest WY |
| Diane T. Naylor | VP-Naylor Insurance Agency |
| William H. Nelson | President - Intermountain Health Care |
| Bradford R. Rich | CFO/Treasurer-Sky West Airlines, Inc. |
| Stephen D. Taylor | Physician - Wasatch Emergency Physicians |
| Stephen W. Wade | President/Owner-Stephen Wade Auto Centers and Stephen Wade Power Sports |
| Thomas B. Morgan | Executive VP-Zions First National Bank |
| H. Don Norton | President/CEO-Far West Bank |

The officers of the Organization as of December 31, 2006, were as follows:

| Principal Officer | Office |
|---|---|
| Sydney C. Paulson | President/Chief Executive Officer |
| Lisa K. Fallert | Secretary/Vice President |
| Todd D. Trettin | Treasurer/Vice President/CFO |
| Stephen L. Barlow | Vice President |
| David H. Olson | Vice President |
| Jerry R. Edgington | Vice President |
| J. Murphy Winfield | Vice President |

The members of the Organization's Audit Committee as of December 31, 2006, were as follows:

Audit Committee Members

Teresa Beck, Chair
H. Don Norton
Bradford R. Rich

The members of the Organization's Finance Committee as of December 31, 2006, were as follows:

Finance Committee Members

Teresa Beck, Chair
H. Don Norton
Bradford R. Rich
Sidney C. Paulson
Todd D. Trettin

The members of the Organization's Executive Committee as of December 31, 2006, were as follows:

Executive Committee Members

Thomas B. Morgan, Chair
Teresa Beck
Daniel E. England
Sidney C. Paulson

The Organization also maintained a Nominating Committee, an Appeals Committee and a Quality Assurance Committee in 2006.

Conflict of Interest Procedure

The Organization maintains a formal conflict of interest policy that provides that no employee will engage in outside business activities that will create a conflict of interest with the work and mission of the Organization. No trustee, director, officer or employee may use their position or any knowledge gained as a result of their position in any manner such that a conflict does or may arise between the Organization's interest and those of the individual. The policy applies to all employees of the Organization.

Conflict of Interest Statements disclosing any potential conflicts are filled out annually by the employees including the Board of Trustees and officers. Statements are reviewed by management and the human resources department for any material conflicts. No material conflicts were noted during the period under review.

Corporate Records

The Company's Articles of Incorporation were amended on March 31, 2006, primarily to change the name of the Company to SelectHealth, Inc., and to revise the provision related to the Board of Trustees. The amended Articles were filed with and approved by the Department. The bylaws were last amended and restated as of June 15, 2006. The amended and restated bylaws were provided to the Department for review.

The last meeting of the Board of Trustees during the examination period was held on October 20, 2006, and the Board of Trustees approved the minutes of that meeting on March 22, 2007. The Department examination report as of December 31, 2002, dated January 5, 2004, was distributed to the Board of Trustees on June 12, 2004, to comply with U.C.A. § 31A-2-204(8).

Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

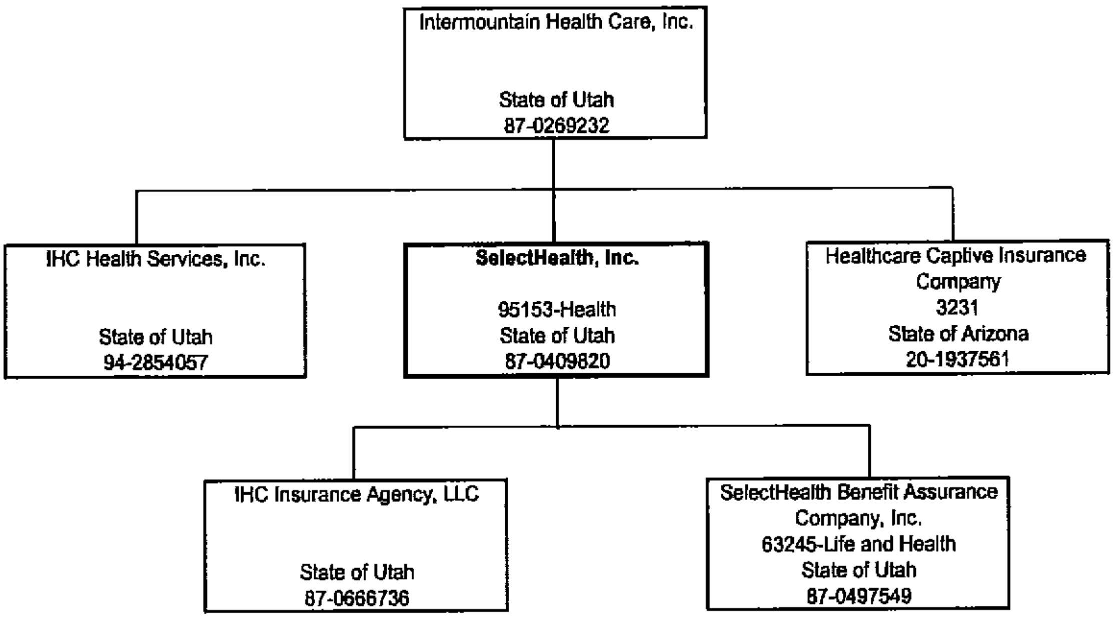
There were no acquisitions, mergers, disposals, dissolutions, or purchases/sales through reinsurance during the period under review.

Surplus Debentures

There were no surplus debentures outstanding as of the examination date.

## AFFILIATED COMPANIES

The Organization is a member of an insurance holding company system, with IHC being the sole Member of the Organization. Following is an abbreviated organizational chart derived from the Annual Statement, Schedule Y as of December 31, 2006:




IHC is a Utah nonprofit charitable corporation which, through its affiliated companies, provides health care and related services to communities and individuals in the intermountain region. IHC Health Services, Inc. (IHCHS) is a Utah nonprofit corporation that provides medical and administrative services to the Organization. The Company is the parent to SelectHealth Benefit Assurance Company, Inc. (SHBAC), a Utah life and health insurance company that insures certain non-emergency, out of network encounters for members of the Company and offers stop loss coverage to the Company's uninsured plans. IHC Insurance Agency, LLC acts as an agency for the Organization.

Transactions with Affiliates

The Organization is a party to an Administrative Services Agreement with IHCHS. Under the agreement the Organization and IHCHS each may provide to the other various services, including management, payroll processing, investment management, retirement, human resources, insurance coverage, legal, facilities, information systems and telecommunication services. Services are provided at their fair value, with "fair value" defined in accordance with usual accounting standards and practices.

IHC is affiliated with IHC, Inc. Retiree Welfare Benefit Trust through common management. It was noted that the Organization provides certain administrative services to the Trust in conjunction with its agreement with IHCHS above.

The Organization provides marketing and administrative services under the terms of an Administrative Services Agreement with SHBAC. The Agreement was effective July 1, 1994, and automatically renews each January 1 for a calendar year period. The Agreement relates to the Point of Service option (non-emergency, out-of-panel encounters) which is insured by SHBAC and is offered in conjunction with certain of the Organization's policies. Premium is calculated in accordance with the formula contained within the agreement, and is remitted by the Organization monthly. The Agreement also provides for an experience rating refund to be calculated. At the end of five months following each year end a final calculation is determined and 99% of the resulting surplus as calculated is remitted from SHBAC to the Organization. If the experience rating refund is determined to be negative, the amount is then carried forward into the following period.

IHC, through a resolution of its Board of Trustees, was noted to have committed to provide the Organization, and indirectly to SHBAC, with loan guarantees or financing sufficient to enable these companies to meet all of their financial obligations and commitments.

The Organization also acts as a TPA under an agreement to administer the IHC employees' self-insured plan. Fees to the Organization under this agreement amounted to approximately $8.3 million in 2006.

A $46 million surplus distribution payable to its policyholders was declared by the Organization in 2005 and paid out in 2006. In addition the Organization declared and paid a Federal tax refund for approximately $14.8 million in 2005. A portion of these distributions were paid to IHC.

A review of the Organization's 2006 Consolidated Form B filing, as filed on April 30, 2007, indicated that the filing was not in compliance with U.C.A. § 31A-16-105. The holding company filing did not disclose several of the affiliated transactions, including the Administrative Agreement with IHCHS, the surplus distribution, and the TPA agreement to administer the IHC employees' self insured plan. In addition, it was noted that the Organization entered into an Asset Exchange Agreement effective in 2007 with IHCHS. An insurance company is required to update its filing within 15 days of entering into a material affiliated agreement. The Organization filed an amended Form B filing with the Department on October 31, 2007.

## FIDELITY BOND AND OTHER INSURANCE

As of the examination date, the Organization participated in fidelity bond coverage of $5,000,000 under a Commercial Crime Insurance Policy issued to IHC, its subsidiaries and affiliates. The amount of coverage was equal to the maximum limits suggested by the NAIC

The Organization was also a participant on various other IHC insurance policies, including property, general liability, workers' compensation policies and directors' and officers' liability insurance.

## PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Organization is a participant in a defined benefit retirement plan sponsored by IHC. The IHC Pension Plan provides a monthly benefit at retirement based on earnings and years of service. Employees vest in the plan after five years of service. IHC pays the entire cost of the pension program by making annual contributions to the plan. The amount of contributions is determined with the assistance of the plan's actuaries. Federal law imposes certain minimum funding standards. An actuary must certify each year that the contributions to the plan meet these standards. An independent trustee that is responsible for the administration and management of the trust fund holds the assets of the plan.

The Organization participates in a defined benefit medical and life insurance plan sponsored by IHC that provides post-retirement medical benefits and basic and supplemental life insurance benefits to retirees and eligible dependents. Retirees who participate in these insurance benefits share in the cost of the premiums based on years of benefit service and on the extent of coverage. IHC reserves the right to amend, replace, or terminate the plans and to reduce benefits or adjust the retiree share of the premium cost.

The Organization also participates in a 401(k) plan sponsored by IHC. Employee contributions to the 401(k) plan are matched up to a maximum of 3% of a participating employee's compensation.

## STATUTORY DEPOSITS

The Organization's statutory deposit requirement was $8,216,878 pursuant to U.C.A. § 31A-8-211(1). The examination confirmed the Organization maintained a statutory deposit consisting of US Treasury Bonds with a par value of $9,363,805, which was adequate to cover the required deposit.

## INSURANCE PRODUCTS AND RELATED PRACTICES

### Policy Forms and Underwriting

The Organization's forms used for advertising materials and for the group policy files were compared against the record of filed forms at the Department. No discrepancies were noted.

The Organization retained all risks other than losses incurred at hospitals. In general, the Organization's risk retention for losses incurred at hospitals was the first $1,000,000 of loss or losses incurred at an IHC hospital or the first $500,000 of loss or losses incurred at other hospitals by each covered person during an agreement year, plus 10% of losses in excess of the initial retention. Current policies are issued with limits up to $2,500,000.

### Territory and Plan of Operation

The Organization was authorized to conduct HMO business in the states of Utah and Idaho. The Organization was previously authorized to conduct business in the state of Wyoming, but effective December 31, 2003, it voluntarily surrendered its Certificate of Authority and withdrew from that state. The Organization wrote large employer group, small employer group, and individual policies in Utah, and large employer group policies in Idaho. It also acted in the capacity as a TPA, providing administrative services for self-funded (uninsured) clients.

The Organization furnished its health care services through various contracts/arrangements with providers. Medical services were provided through contracts with independent professional associations and clinic providers. Hospital services were provided primarily through the Organization's contract with its affiliate, IHCHS. All material provider contracts were written on a fee-for-service or contractual fee basis.

Incentives are offered to certain physicians through a Preferred Provider Physician Incentive Program. Additionally, certain physicians participating under the Select Value plan are subject to a 10% withhold, and the resulting surplus, if any, from the plan each year is divided out 50/50 between the Intermountain Medical Group and the Organization (known as the Select Value Risk Share). A formal agreement containing the agreed upon terms for the Select Value Risk Share arrangement was not provided and/or is not available, and it is recommended that the Organization formalize the arrangement through a written agreement.

The Organization marketed its products through independent producers appointed by an affiliated insurance agency, IHC Insurance Agency, LLC, and through approximately 110 unaffiliated insurance agencies appointed by the Organization. The producers received a commission based on the policy premium. Certain agencies were also eligible to receive an override commission based upon the volume of business produced. The agencies work closely with the Organization's in-house sales force to deliver products to the clients.

U.C.A. § 31A-20-108 does not permit the Organization to expose itself to loss on any single risk in an amount exceeding 10% of its capital and surplus. The maximum policy limit currently issued is for $2,500,000 ($1,000,000 net of reinsurance), and the maximum retained single risk allowed based on the examination capital and surplus was over $12 million. The Organization was therefore in compliance with this statutory requirement.

Advertising and Sales Material

Sales materials were reviewed in a concurrent market conduct examination. The materials included packets given to potential clients and materials given to employees after enrollment into health plans. No material exceptions were noted.

Treatment of Policyholders

The Organization had written grievance procedures in place. The formal process for appealing an adverse benefit determination of a pre-service claim provided one mandatory review level, two possible voluntary review levels and the right to pursue civil action. The formal process for appealing an adverse benefit determination of a post-service claim provided two mandatory review levels, one voluntary review level, and the right to pursue civil action.

## REINSURANCE

As of the examination date, an excess loss reinsurance agreement with Munich American Reassurance Company was in effect. The Organization's initial retention was the first $1,000,000 of loss incurred at an IHC hospital or the first $500,000 of loss incurred at other hospitals by each covered person during the agreement year. Reinsurance reimbursable amounts were based on the percentages shown below that were in excess of the initial retention:

- 90% of eligible losses, after certain reinsurance limitations, for approved transplant services performed in a hospital in which the reinsurer or the Organization had negotiated arrangements. The Organization's arrangements were required to be approved by the reinsurer.
- 50% for eligible losses, after certain reinsurance limitations, for transplant services performed in a hospital with which neither the reinsurer nor the Organization had negotiated arrangements and/or the Organization's arrangements were not approved by the reinsurer.
- 90% of eligible losses for services other than transplant services, after certain reinsurance limitations, for services performed in a hospital.

The maximum reinsurance indemnity payable under the agreement was calculated on the basis of $2,000,000 of coverage for each covered person per agreement year.

## ACCOUNTS AND RECORDS

The Organization's general ledger is an in-house developed system located on an IBM iSeries and is maintained and administered by IHCHS. Premium and claims transactions are automatically fed to the general ledger through the primary policy and claims administrative system, FACETS. This system was installed by the Organization during this examination period.

An independent certified public accounting firm, KPMG LLP audited the Organization's records for the years ended 2004, 2005 and 2006. The previous year, 2003, was audited by Ernst & Young LLP. Audit reports generated by these auditors were made available for the examiner's use.

During the examination period, the Organization was not in compliance with Utah Administrative Code (U.A.C) Rule R590-178-5 related to the provisions contained in the executed custodial agreements. The Organization made the necessary changes during the course of the examination and although compliance is no longer an issue, we recommend that the Organization establish a process by which changes to the U.A.C. are monitored to ensure compliance.

## FINANCIAL STATEMENTS

The following financial statements were prepared from the Organization's accounting records and the valuations and determination made during the examination:

BALANCE SHEET as of December 31, 2006

STATEMENT OF REVENUE AND EXPENSES for the Year Ended December 31, 2006

RECONCILIATION OF CAPITAL AND SURPLUS – 2003 through 2006

The accompanying NOTES TO FINANCIAL STATEMENTS are an integral part of the financial statements.

SelectHealth, Inc.
BALANCE SHEET
as of December 31, 2006

ASSETS

| | Net Admitted Assets | Notes |
|---|---|---|
| Bonds | $ 160,432,116 | |
| Common stocks | 79,809,023 | |
| Cash and short-term investments | 28,019,542 | |
| Investment income due and accrued | 1,527,187 | |
| Uncollected premiums and agents' balances | 5,141,075 | |
| Accrued retrospective premiums | 444,002 | |
| Amounts receivable relating to uninsured plans | 4,715,616 | |
| Electronic data processing equipment and software | 2,111,735 | |
| Receivables from parent, subsidiaries and affiliates | 779,517 | |
| Health care and other amounts receivable | 6,377,180 | |
| Total assets | $ 289,356,993 | |

LIABILITIES, SURPLUS, AND OTHER FUNDS

| | | |
|---|---|---|
| Claims unpaid | $ 82,779,412 | |
| Accrued medical incentive pool and bonus amounts | 1,984,454 | |
| Unpaid claims adjustment expenses | 4,090,000 | |
| Aggregate health policy reserves | 2,803,869 | |
| Premiums received in advance | 6,058,262 | |
| General expenses due or accrued | 7,923,487 | |
| Amounts withheld or retained | 639,346 | |
| Remittances and items not allocated | 49,018 | |
| Amounts due to parent, subsidiaries and affiliates | 1,348,706 | |
| Liability for amounts held under uninsured plans | 56,951 | |
| Total liabilities | 107,733,505 | |
| Common capital stock | 0 | |
| Gross paid in and contributed surplus | 30,125,275 | |
| Unassigned funds (surplus) | 151,498,213 | |
| Total capital and surplus | 181,623,488 | (1) |
| Total liabilities, capital and surplus | $ 289,356,993 | |

SelectHealth, Inc.
STATEMENT OF REVENUE AND EXPENSES
for the Year Ended December 31, 2006

| | Total | Notes |
|---|---|---|
| Net premium income | $ 811,687,764 | |
| Change in unearned premium reserves | (1,069,831) | |
| Total revenues | 810,617,933 | |
| | | |
| Hospital and Medical: | | |
| Hospital/medical benefits | 518,602,214 | |
| Other professional services | 20,261,704 | |
| Emergency room and out-of-area | 44,234,016 | |
| Prescription drugs | 95,834,773 | |
| Medical supplies | 11,963,995 | |
| Incentive pool, withhold adjustments and bonus amounts | 2,178,017 | |
| Subtotal | 693,074,719 | |
| | | |
| Less: | | |
| Net reinsurance recoveries | 404,896 | |
| Total hospital and medical | 692,669,823 | |
| Claims adjustment expenses | 27,899,230 | |
| General administrative expenses | 58,122,892 | |
| Increase in reserves for accident and health contracts | (232,618) | |
| Total underwriting deductions | 778,459,327 | |
| Net underwriting gain or (loss) | 32,158,606 | |
| Net investment income earned | 9,263,751 | |
| Net realized capital gains or (losses) | 4,710,053 | |
| Net investment gains or (losses) | 13,973,804 | |
| Tax refund distribution | 12,700 | |
| Net income or (loss) before federal income taxes | 46,145,110 | |
| Federal and foreign income taxes incurred | (2,781,320) | |
| Net income (loss) | $ 48,926,430 | |

SelectHealth, Inc.
RECONCILIATION OF CAPITAL AND SURPLUS
2003 through 2006

| | 2003 | 2004 | 2005 | Per Exam 2006 | Notes |
|---|---|---|---|---|---|
| Capital and surplus prior reporting year | $ 68,998,969 | $ 81,231,499 | $ 97,234,607 | $ 125,905,647 | |
| Net income or (loss) | (221,894) | 8,524,876 | 24,210,770 | 48,926,430 | |
| Change in unrealized gains and (losses) | 11,437,495 | 3,411,497 | 6,565,480 | 4,661,697 | |
| Change in deferred income tax | - | 675,000 | (2,094,000) | | |
| Change in nonadmitted assets | 1,016,924 | 3,391,731 | (11,210) | 2,129,716 | |
| Surplus adjustments: Paid in | | | | | |
| Rounding | 5 | 4 | | (2) | |
| Net change in capital and surplus | 12,232,530 | 16,003,108 | 28,671,040 | 55,717,841 | |
| Capital and surplus end of reporting year | $ 81,231,499 | $ 97,234,607 | $125,905,647 | $ 181,623,488 | |

Per the regulatory financial statements filed with the Utah Insurance Department.

## NOTES TO FINANCIAL STATEMENTS

There were no adjustments proposed to the Organization's financial statements.

(1) Capital and surplus $181,623,488

The Organization's capital and surplus was determined to be equal to that reported in the Organization's annual statement as of December 31, 2006.

The Organization's minimum permanent surplus requirement was $100,000 as defined in U.C.A. § 31A-8-209. As defined by U.C.A. § 31A-17 Part 6, the Organization had total adjusted capital of $181,623,488, which exceeded the company action level risk-based capital (RBC) requirement of $57,662,040 by $123,961,448.

## SUMMARY OF EXAMINATION FINDINGS

Items of significance commented on in this report are summarized below:

- A review of the Organization's 2006 Consolidated Form B filing, as filed on April 30, 2007, indicated that the filing was not in compliance with U.C.A. 31A-16-105. The filing did not disclose several of the affiliated transactions, including the Administrative Agreement with IHCHS, the surplus distribution, and the TPA agreement to administer the IHC employees' self insured plan. In addition it was noted that the Organization entered into an Asset Exchange Agreement effective in 2007 with IHCHS. An insurance company is required to update its filing within 15 days of entering into a material affiliated agreement. The Organization filed an amended Form B filing with the Department on October 31, 2007. (AFFILIATED COMPANIES - Transactions with Affiliates)

- A formal agreement containing the agreed upon terms for the Select Value Risk Share arrangement was not provided and/or is not available, and it is recommended that the Organization formalize the arrangement through a written agreement. (INSURANCE PRODUCTS AND RELATED PRACTICES - Territory and Plan of Operation).

- During the examination period, the Organization was not in compliance with U.A.C. Rule R590-178-5 related to the provisions contained in the executed custodial agreements. The Organization made the necessary changes during the course of the examination and although compliance is no longer an issue, we recommend that the Organization establish a process by which changes to the U.A.C. are monitored to ensure compliance. (ACCOUNTS AND RECORDS

## ACKNOWLEDGEMENT

Frank G. Edwards, Jr., ASA, MAAA, of the actuarial firm of INS Consultants, Inc. performed the actuarial phases of the examination. In addition, Mary L. Rodack, CFE, Malis Rasmussen, and Moli Abejar participated in the examination representing the Utah Insurance Department. Colette M. Hogan, CFE, CPM, supervised the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Organization.

Respectfully Submitted,

Robert J. Rodack

Robert J. Rodack, CFE
Utah Insurance Department